

Consultation on the National Minimum Wage

***Submission to the Low Pay Commission by the Citizens Information Board
(April 2015)***

Introduction

The Citizens Information Board (CIB) welcomes the opportunity to make a submission on the National Minimum Wage to the Low Pay Commission. The commitment to examine the rate of the minimum wage on an annual basis from now on is welcome. The emphasis on using an evidence-based approach to the setting of the minimum wage is important in order to achieve an appropriate balance between the needs of low income work-households, the need to eliminate welfare to work traps, the need to ensure that employers (current and potential) can maintain the momentum in job creation and, very importantly, the need to 'make work pay'. Ensuring that wages for those at the lower end of the scale are fully reflective of economic recovery is at the core of social inclusion and social recovery. Clearly, also, there is an intrinsic link between wages and income tax (including the Universal Social Charge) and this will no doubt be a key factor in the deliberations of the Commission. The potential impact on small employers of any increase to the minimum wage is also a key consideration as is the need to achieve an appropriate balance between the needs of low income workers and employers generally. While cost of living factors are not directly the responsibility of the Low Pay Commission, they are centrally relevant to its deliberations on the minimum wage. The role and impact of Family Income Supplement (FIS) is also a factor.

The concept of a 'living wage' which has been gaining traction in Ireland, as well as in other jurisdictions, in recent years is important and should be actively considered. It is argued that Ireland's statutory minimum wage (which provides a potential full-time gross income of €17,542 for a 39-hour week) falls far short of requirements for a socially acceptable standard of living. In other words, full-time employment on the legally minimum wage does not guarantee a minimum decent standard of living.

The CIB is aware of concerns expressed by some employer organisations about the potential negative impact of any increases to the National Minimum Wage on job creation and job retention and of potential knock-on effects on pay scales up the line.

Feedback from CIB Service Delivery Partners

CIB service delivery partners - the national network of Citizens Information Services (CISs), the Citizens Information Phone Service (CIPS) and the Money Advice and Budgeting Service (MABS) - have significant engagement with individuals at the

lower end of the income spectrum¹ These services deal on an ongoing and regular basis with:

- People seeking to combine low-income work and social welfare payments to maximise household income
- People who experience difficulties in transitioning from welfare to work
- Families experiencing over-indebtedness as a result of loss of employment
- People at risk of homelessness because of an inability to pay mortgage or rent in the private sector

The engagement with citizens by CISs, CIPS and MABS has become more complex in recent years, involving multiple information requests, requests for advice/assistance and advocacy support (CISs and CIPS)) and assisting low income households with rescheduling personal debt, frequently with multiple lenders (MABS) Feedback from CISs and CIPS, based on the experience of dealing with queries from the public, provides an insight into some of the systemic difficulties experienced by people in respect of integrating income supports with employment activation programmes, bridging the gap between welfare and work and dealing with the challenges of changed family circumstances. In recent years, MABS has been dealing with clients with significant debt problems that are associated with the economic and fiscal crisis of the past eight years.

Disincentives for people transitioning from welfare to work
It is reasonable to suggest that there is some linkage between wages from low-income work and disincentives to employment as identified by CIB service delivery partners.

Despite various supports put in place to eliminate welfare traps and the fact that increasingly people are taking up work and training options, feedback from CIB service delivery partners consistently refers to specific situations where families are either less well off (or only very marginally better off) working, than they would be on a social welfare payment. Particular difficulties are identified in relation to the interaction of some social welfare payments with income from work. These include Rent Supplement, FIS, days (rather than hours) worked when claiming Jobseekers' payments, secondary benefits such as Medical Card and Fuel Allowance, and the payment of PRSI. For example, some people state that they are not in a position to increase part-time hours or take up work opportunities on the minimum wage because of the knock on impacts on their social welfare.

The situation becomes more complex when travel and child care costs are factored

¹ The national network of CISs and CIPS between them deal with over a million queries from the public annually. 45% of queries are social welfare related. Services dealt with almost 74,000 employment related queries in 2014 which includes queries on employment rights and conditions and pay.

The total MABS Active Client Caseload on 31 December 2014 was 20,161 and the MABS National Helpline received 21,349 calls during 2014.

in. An ESRI (2012) Report² estimated travel costs at €15-25 per week as a basis for analysis and childcare costs at €94-€135 for a child aged under five years. These costs are significant and child care costs are particularly pertinent for lone parents moving from welfare to work. While the impact of the costs of childcare has been acknowledged to some extent through the Community Childcare Subvention and the Early Childhood Care and Education Scheme and the roll out of the Area Based Childhood Programme in the most disadvantaged areas in the country, it continues to be an issue.

The following case examples are indicative of the issues experienced in combining income from work and social welfare income.

Difficulties in transitioning from welfare to work: Indicative Case Examples

A young married couple expecting their first child were in receipt of Rent Supplement until the husband secured full time employment. When rent³ and transport costs were taken into account, the couple now have approximately €500 less disposable income per month.

A CIPS caller with 4 children has an offer of employment at €400 per week and would get FIS of €254. However, the family will lose Rent Supplement⁴ which acts a disincentive to take up the job offer.

A married person with 4 children has been on JA for 2 years. He has been offered 14 hours work over 7 days and was advised to apply for the PTJI scheme. He will receive €193.90 from this and €133 in wages (just above the minimum wage), i.e., a total of €326.90. This is €105 less than the €432 the family was receiving on JA. Also there is no Fuel Allowance with PTJI so he is a further €20 per week down in the winter season. He does not qualify for FIS as he is working less than 19 hrs.

Access to childcare/ Prohibitive childcare costs and taking up work

A CIPS caller with one child is on OFP and FIS and working 30 hours a week. She was offered an additional 10 hours work. Her current income is €462 (€259 minimum wage employment), €140 (OPFP) and €63 (FIS). Her new total income for 40 hours work will be €480 (€346 employment, €95 OPFP, €39 FIS). She will be €18 per week better off overall for 10 extra hours work. However, the cost of childcare for an additional 10 hours per week will far exceed this amount.

2 See Callan, T (Ed.) (2012) Budget Perspectives 2013. ESRI Research Series, No. (28).

<https://www.esri.ie/UserFiles/publications/RS28.pdf>

³ A new Housing Assistance Payment is being introduced for people who have a long-term housing need and who qualify for social housing support. This new payment will address the issue of support for rental costs for those in full time work on low income. '...over time, Rent Supplement has become a significant disincentive to work, as it is not payable where a person or their spouse/partner is in full-time employment, subject to limited exceptions. Under HAP, recipients will be able to take up full-time employment, subject to the conditions of the scheme. [Housing Assistance Payment](http://www.citizensinformation.ie/en/housing/renting_a_home/housing_assistance_payment.html); http://www.citizensinformation.ie/en/housing/renting_a_home/housing_assistance_payment.html

⁴ ditto

Low-Paid Work

TASC⁵ has pointed out that one-fifth of Irish jobs are classified as 'low pay' by the EU, which is significantly higher than the EU average of 16.9% and a Euro area average of 14.7%. The cost of living calculations in the work on Minimum Essential Standard of Living carried out by the Vincentian Partnership for Social Justice⁶ demonstrate the 'Living Wage' requirements for a range of household types and shows clearly that the current national minimum wage earned for a 39-hour week for a full year, does not allow for a basic minimum standard of living across a range of household types.

It is also important to note that the average earnings figure (€35,000) often referred to does not represent most people's actual incomes. The gap between high earners earning €60,000 or over and those with an average income of less than €25,000 and the higher and lower pay around these averages is an important factor. In terms of the minimum wage, the numbers at the lower end of the low income spectrum is particularly relevant. Also relevant is the fact that average earnings data is skewed by the extent of part-time employment and atypical working.

Poverty and Social Exclusion

The need to address the intrinsic link between poverty, on the one hand, and unemployment, under-employment and low-income employment, on the other, should be at the heart of deliberations on the national minimum wage. TASC has noted that less than two-thirds (65%) of 'working age' adults in Ireland are in employment (70% of men/60% of women), below the EU average of 68%, and well below countries like the UK/Netherlands/Denmark (76%) or Sweden (80%)⁷

Household incomes in Ireland have fallen by €1,800 per person since 2008, almost two-thirds more than the average drop in income in the other Eurozone countries.⁸ Data from the 2013 EU Survey on Income and Living Conditions (EU SILC)⁹ indicates that 15.2% of the population are at risk of poverty (down from 16.5% in 2012). Those most at risk of poverty in 2013 were individuals who were unemployed (36.7%) while the 'at risk of poverty' rate for individuals living in households where there was no person at work was 34.5%.

Just over 8% were living in consistent poverty in 2013 (up from 7.7% in 2012). The consistent poverty rate was highest among those who were unemployed (23.9%) and 2% for those who were at work.

5 http://www.tasc.ie/download/pdf/tasc_cherishing_all_equally_web.pdf?issuysl=ignore

6 http://www.budgeting.ie/images/stories/Publications/Papers/VPSJ_2014_Working_Paper_-_A_Living_Wage_in_Ireland.pdf

7 <http://www.tasc.ie/publications/the-impact-of-social-protection-on-the-distributio/>

8 Organisation for Economic Development and Co-operation (2014), Society at a Glance 2014 Highlights: Ireland the crisis and its aftermath, Paris: OECD, p.1.

9 <http://www.cso.ie/en/releasesandpublications/er/silc/surveyonincomeandlivingconditions2013/#.VSUzGyl0wcg>

Deprivation rates have more than doubled since 2007 - 30% of the population cannot afford basic items of daily living compared to 11.8% in 2007. Over half (54.9%) of those who were unemployed experienced deprivation.

The National Action Plan for Social Inclusion 2007-2016 aimed to reduce consistent poverty to between 2% and 4% by 2012 and eliminate it entirely by 2016. However, the national poverty target was revised in 2012 in light of the recession with the aim to reduce the consistent poverty rate to 4% by 2016 and to 2% or less by 2020 in line with the Government's commitments under the EU 2020 Strategy. The Government has also set a specific target to lift 70,000 children out of poverty by 2020.

The 'Living Wage' Concept

The CIB believes that consideration of the National Minimum Wage should take into account the debate on the concept of a living wage¹⁰ 'based on the concept that work should provide an adequate income to enable individuals to afford a socially acceptable standard of living'.¹¹ A living wage is a wage which enables people to have a minimum acceptable standard of living. It is based on the concept that work should provide an adequate income to achieve this and on an agreed evidence-based rate of pay derived from Consensual Budget Standards research related to the actual costs of daily living.

As already stated, an adequate living wage for Ireland has been calculated to be €11.45 per hour (€446 per week) The minimum wage is thus considered insufficient to address the daily living needs of many workers and, in particular, is insufficient for low-paid lone parent households or single people living alone. A quarter of all Irish workers are currently earning less than the living wage threshold according to a report from the (Nevin Economic Research Institute (NERI))¹². NERI has noted that 345,000 employees in Ireland are presently on wages of less than €11.45 per hour with female employees accounting for almost two thirds of that total.

*Social Justice Ireland*¹³ has urged the Low Pay Commission to consider research by the Living Wage Technical Group in 2014.

Impact of Social Transfers

In 2013, if all social transfers were excluded from income, the 'at risk of poverty' rate would have been 49.8%. The corresponding figure for 2004 was 39.8%. This increase over time demonstrates the increased dependence of individuals on social transfers to remain above the 'at risk of poverty' threshold. The amount of Government expenditure on the supplementary welfare allowance and on FIS to support low income working families is a significant factor.

10 A living wage is intended to establish an hourly wage rate that should provide employees with sufficient income to achieve an agreed acceptable minimum standard of living. In that sense it is an income floor; representing a figure that allows employees afford the essentials of life.

¹¹ http://www.livingwage.ie/images/Documents/Living_Wage_Technical_Document_July_2014.pdf

¹² Nevin Economic Research Institute (2014) NERI Quarterly Economic Facts: Summer 2014, Dublin/Belfast: NERI, p.56.

¹³ See <http://www.socialjustice.ie/content/publications/summary-living-wage-2014>

Key Considerations

The deliberations of the Commission on the National Minimum Wage should take into account the following factors:

- It is important to make significant strides towards ensuring that people who are in full-time employment are not living in poverty and have a socially acceptable minimum standard of living;
- It is clear that the position of low income workers needs to be addressed in order to bridge the gap between work income and costs of living;
- The experience of the UK Low Pay Commission, which has operated for over a decade, is relevant to Ireland, particularly its focus on extensive examination of the evidence from research, feedback from stakeholders, and analysis of labour market and other economic data;¹⁴
- Achieving a balance between actual wages and the income tax system (including targeted tax credits) in putting money into people's pockets is a core factor;
- There is merit in the argument that the minimum wage should be at the living wage level which has been identified as €11.45;
- There is a need to look specifically at the national minimum wage rates for younger persons – the current rate after reaching the age of 18 is €6.92 an hour during the first year of employment and €7.79 an hour during the second year;
- The question of the minimum wage must be considered in the context of ensuring that those who are long-term unemployed (many of whom are disconnected from the labour market) can get started in work in order to receive 'on-the job' skills training relevant to current and future job availability;
- There should be a strong focus on welfare to work traps which act as a disincentive to people taking up employment;
- The collective impact of pay gains, welfare losses and income tax for individuals and households as they transition from unemployment to employment should be taken into consideration;
- The costs associated with returning to work, particularly those with dependent children, is a key factor - childcare costs and transport costs;

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https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/413415/The_National_Minimum_Wage_Low_Pay_Commission_Report_2015.pdf

- There is a need to strike the appropriate balance between protection for workers and maintaining and creating jobs and to give due weight to the concerns of employers in this regard;
- Dealing with youth unemployment in order to eliminate people becoming long-term unemployed is important and, in this regard, employers should be incentivised to take on younger workers without experience;
- The need to create and maintain an environment to stimulate job creation should be considered in tandem with consideration of the case for increasing the national minimum wage;
- It is almost certain that increasing the minimum wage would put money back into the domestic economy, which may have a knock-on effect of stimulating job creation;
- It is important that national minimum wage considerations take into account the current significant contribution to low-income families by FIS and, also, the contribution of the roll-out of the Housing Assistance Payment.